

Message Text

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TO SECSTATE WASHDC 5785

INFO AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

UNCLAS SECTION 1 OF 2 SAO PAULO 2641

FOR DEPUTY UNDER SECRETARY FOR MANAGEMENT AND DIRECTOR GENERAL
OF FOREIGN SERVICE

E.O. 11652: N/A

TAGS: AMGT, BR

SUBJECT: TAXATION OF FOREIGN SERVICE ALLOWANCES AND ADMINIS-
TRATIVE AND MORALE IMPLICATIONS

1. WE ARE RELIEVED TO READ THE USIA WIRELESS FILE CONGRESSI-
ONAL ROUNDUP OF DECEMBER 3, WHICH INDICATES THAT THE HOUSE
MAY NOT CONSIDER A TAX REFORM MEASURE REPORTED OUT BY THE
WAYS AND MEANS COMMITTEE WHICH INCLUDES THE ELIMINATION OVER
THREE YEARS OF THE PRESENT TAX EXEMPTION ON ALLOWANCES OF FE-
DERAL EMPLOYEES OVERSEAS, INCLUDING "HOUSING, COST-OF-LIVING
EDUCATION AND TRAVEL", WHICH "HAVE BEEN EXEMPT FROM TAXATION
SINCE 1943". THE FIRST NEWS OF AN IMMINENT VOTE HAD COME JUST
THE DAY BEFORE. THE NEWS IS A THUNDERBOLT, EVEN THOUGH PASSA-
GE IS OBVIOUSLY NOT ASSURED. THE LINKAGE OF THIS PROPOSED
LEGISLATION TO THE REDUCTION OF TAX BENEFITS RECEIVED BY PRI-
VATE CITIZENS ABROAD GIVES PAUSE. WHILE THE LOCAL ASFA CHAPTER
IS MEETING SEPARATELY AND DRAFTING ITS VIEWS, I CAN NOT AS A
RESPONSIBLE MANAGER OF A POST IN A HIGH COST CITY WITH RAMPANT
INFLATION FAIL TO CALL YOUR ATTENTION TO THE CATASTROPHIC EFFECTS
WHICH ENACTMENT OF THE TAX EXEMPTION WOULD HAVE NOT ONLY ON THE
MORALE OF ALL FS EMPLOYEES ABROAD AND EQUITABLE ADMINISTRATION
BUT ON THE ABILITY TO RECRUIT, TRANSFER AND RETAIN THE HIGH
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QUALITY OFFICERS ALWAYS SOUGHT BY THE FOREIGN SERVICE. THE CO-

MMITTEE IN EFFECT PROPOSES TO RETURN THE FOREIGN SERVICE TO ITS PRE-WAR STATUS AS A SMALL CLUB FOR THE WEALTHY OR THE WEALTHILY MARRIED. I ALSO FEEL IMPELLED TO SPEAK OUT AS A FORMER DEPUTY ASSISTANT SECRETARY FOR MANAGEMENT FOR ARA/LA AND CONTRIBUTOR TO TASK FORCES AND OTHER ACTIVITIES OVER EIGHTEEN YEARS TO STRENGTHEN AND IMPROVE THE CAREER FOREIGN SERVICE.

2. BEFORE DISCUSSING IN DETAIL SOME OF THE IMPLICATIONS, I BELIEVE THAT IT IS URGENT TO ADVOCATE THE IMMEDIATE MOBILIZATION OF DATA BY THE DEPARTMENT ON THE EFFECTS OF THE PROPOSED MEASURE AND THE DEPLOYMENT OF HIGH LEVEL PERSONNEL TO COMBAT IT IN THE CONGRESS. THE TASK CAN NOT BE LEFT TO ASFA AND EMPLOYEE UNIONS. THE MEASURE CRIPPLES EFFECTIVE MANAGEMENT AND UNDERMINES MANAGEMENT OBJECTIVES. PERHAPS WHAT I AM SUGGESTING HAS ALREADY BEEN DONE. IF IT HAS, MAINTENANCE OF MORALE IN THE FIELD REQUIRES THAT PERSONNEL BE INFORMED AND KEPT POSTED. WE RECEIVE A LOT OF NEGATIVE NEWS: THAT THE SAO PAULO HOUSING ALLOWANCE HAS BEEN CUT AND THE COST-OF-LIVING ALLOWANCE ELIMINATED (AFTER LESS THAN THREE MONTHS) BECAUSE OF DEVALUATION OF THE CRUZEIRO AGAINST THE DOLLAR WHILE LOCAL PRICES AND COSTS ARE INCREASING AT A MUCH HIGHER PROPORTIONAL RATE THAN THE DEVALUATION, BUT THERE IS NO WORD OF THE DEPARTMENT'S EFFORT ON BEHALF OF THOSE OVERSEAS.

3. THE FOLLOWING COMMENTS ARE BASED ON THE NECESSARILY CRYPTIC USIA FILE:

A. HOUSING ALLOWANCES: IT IS INTENDED THAT ONLY ALLOWANCES BE TAXED. WHAT ABOUT THE VALUE OF A GOVERNMENT LEASE OF QUARTERS OCCUPIED BY AN OFFICER? IS ONE TO BE TAXED AND THE OTHER NOT? WHAT ABOUT OFFICERS WHO OCCUPY GOVERNMENT-OWNED QUARTERS? ARE THEY TO BE TAXED ON A FRACTION OF THE VALUE OF THE PROPERTY REPRESENTING ITS EXPECTED LIFETIME? WILL THIS BE 20 OR 25 YEARS? WILL THE ANNUAL MAINTENANCE OF THE PROPERTY BE INCLUDED IN THE TAXABLE AMOUNT? IF OFFICERS OR EMPLOYEES LIVING IN GOVERNMENT -OWNED QUARTERS WILL NOT BE TAXED IS THAT NOT RANK DISCRIMINATION? WHAT ABOUT AMBASSADORS WHO LIVE IN HUGE RESIDENCES? WILL THEY BE EXEMPT FROM A TAXABLE ASSESSMENT, WHILE STAFF ARE NOT? WHAT ABOUT ORE? IF THE ASSESSMENT ARE NOT EQUITABLE WILL THERE NOT BE SERIOUS MORALE PROBLEMS, AND IF REASONABLE ASSESSMENTS ARE MADE ON MANY GOVERNMENT-OWNED RESIDENCES

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CES, WILL NOT MANY BE RELUCTANT TO ACCEPT CERTAIN ASSIGNMENTS AND WILL IT NOT BE NECESSARY TO DISPOSE OF A CONSIDERABLE NUMBER OF PROPERTIES OR BANKRUPT THE SENIOR OCCUPANTS? WILL SIMILAR MEASURES BE APPLIED TO RESIDENCES OF SENIOR U.S. OFFICIALS IN THE U.S.A. AND TO THE HOUSING OF UNIFORMED OFFICERS ON MILITARY INSTALLATIONS?

B. COST-OF-LIVING: THE HOUSEWAYS AND MEANS COMMITTEE IS QUO-

TED AS SAYING THAT THE ALLOWANCES WERE ORIGINALLY JUSTIFIED BECAUSE "IT WAS FELT THAT RELIEF WAS ESSENTIAL TO GOVERNMENT PERSONNEL STATIONED IN FOREIGN COUNTRIES WHO WERE HAVING A DIFFICULT TIME FINANCIALLY BECAUSE THEY WERE FACED WITH RUNAWAY INFLATION IN SOME FOREIGN COUNTRIES ... WHAT MAY HAVE BEEN APPROPRIATE OR NECESSARY DURING A MAJOR WAR IS NOT APPROPRIATE DURING PEACETIME CONDITIONS". A STUDY SHOULD BE MADE, BUT I SUGGEST THAT THE RATES OF INFLATION IN MANY COUNTRIES ARE HIGHER TODAY THAN DURING THE 1943-45 PERIOD BY A LARGE MARGIN.
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C. EDUCATION ALLOWANCES: THIS IS THE MOST CRUSHING OF ALL THE PROPOSALS. DO THE LEGISLATORS WISH THE FAMILIES TO GO BACK TO INDIVIDUAL HOME INSTRUCTION VIA THE CALVERT SYSTEM AND CORRESPONDENCE COURSES THEREAFTER? EVEN MISSIONARY ORGANIZATIONS RECOGNIZE THE IMPORTANCE OF GOOD SCHOOLING FOR THE CHILDREN OF THEIR DEDICATED AND ILL-PAID REPRESENTATIVES ABROAD AND PROVIDE SUBSIDIES OF ONE KIND OR ANOTHER TO IMPROVE THE LEVEL OF EDUCATION AVAILABLE. TO TAX ALLOWANCES RECEIVED FOR EDUCATION IS UNCONSCIONABLE. LET THE LEGISLATORS REMEMBER THAT THE EVERY DOLLAR OF ALLOWANCES RECEIVED WILL BE TAXED TO THE INDIVIDUAL AT THE MARGINAL TAX RATE ON THE LAST DOLLAR OF PRESENT TAXABLE INCOME AND THIS WILL BE IN ALMOST NO CASE LESS THAN 25 PERCENT AND GENERALLY HIGHER.

D. TRAVEL ALLOWANCES: IT IS IMPOSSIBLE TO TELL WHAT ID MEANT HERE. SURELY, THE WAYS AND MEANS COMMITTEE DOES NOT PROPOSE TO

TAX REIMBURSEMENT FOR THE ACTUAL COST OF TRAVEL TO ONE'S POST OF ASSIGNMENT. BUT DO THEY PROPOSE TO TAX PER DIEM? IS PER DIEM FOR DOMESTIC TRAVEL NOT TO BE TAXED? DO THEY PROPOSE TO TAX THE VALUE OF EXCESS BAGGAGE SHIPMENTS, AIR FREIGHT SHIPMENTS, AND HOUSEHOLD EFFECTS SHIPMENTS MADE FOR OR BY AN INDIVIDUAL EMPLOYEE? WILL THE GOVERNMENT THEN PROVIDE FURNITURE, APPLIANCES, ESSENTIAL TRANSPORTATION SERVICES, AND MINIMUM KITCHENWARE, DISHES AND GLASSWARE FOR EACH EMPLOYEE SO THAT THE MODULAR AND DISPOSSESSED FOREIGN SERVICE EMPLOYEE CAN ARRIVE WITH HIS ONE OR TWO SUITCASES AND FIT INTO THE MODULAR QUARTERS?
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TERS PERHAPS AND PERHAPS NOT SUPPLIED BY A GRATEFUL GOVERNMENT? CERTAINLY, THE COMMITTEE MUST INTEND TO TAX THE VALUE OF HOME LEAVE, R&R, EDUCATIONAL AND EMERGENCY VISITATION OR MEDICAL TRAVEL. THESE ARE OBVIOUSLY BENEFITS TO THE INDIVIDUAL. WHAT ABOUT THE OBJECTIVE OF PERIODICALLY REINTEGRATING THE OVERSEAS EMPLOYEE INTO AMERICAN LIFE? THE FOREIGN SERVICE ACT OF 1946 AS AMENDED, SECTION 933 OR 22 USC SECTION 1148(A), ITSELF STATES WITH REGARD TO HOME LEAVE THAT "THE SECRETARY...SHALL SO ORDER AS SOON AS POSSIBLE AFTER COMPLETION OF THE THREE YEARS OF SUCH SERVICE". C.F. THE STRATTON DECISION IN WHICH THE U.S. COURT OF APPEALS 9TH CIRCUIT UPHELD THE MANDATORY NATURE OF HOME LEAVE FOR FOREIGN SERVICE OFFICERS. (USTC 71-2 PARAGRAPH 9630). THE PROPOSED MEASURES TAKEN AS A WHOLE WILL GIVE AN ENORMOUS ADVANTAGE IN CAREER TERMS TO SINGLE PERSONS, TO ANYONE WHO HAS AN OUTSIDE INCOME OF ANY SIZE WHATSOEVER, AND TO THOSE WHO HAVE NO CHILDREN. THE FOREIGN SERVICE WILL INEVITABLY BE SHAPED IN THESE DIRECTIONS. PERSONNEL WILL BE DISCOURAGED FROM ACCEPTING FREQUENT TRANSFERS. PRESUMABLY ONLY THE DIRECT COST OF PERSONAL TRAVEL FROM PARIS TO ROME WILL BE ALLOWED TAX FREE. TEMPORARY LODGING ALLOWANCE IS ALSO OBVIOUSLY A PERSONAL BENEFIT AND WILL BE TAXED. WILL TRANSIENT APARTMENTS UNDER GOVERNMENT LEASE PROLIFERATE? IF THEY DO, EMPLOYEES WILL PRESUMABLY BE TAXED ON THE ASSESSED PROPORTIONATE COST OF THE LEASE DURING THE PERIOD THEY OCCUPIED SUCH QUARTERS. ADMINISTRATIVE PROBLEMS WILL MULTIPLY.

4. WHAT WILL HAPPEN WHEN AN EMPLOYEE STATES THAT HE CAN NOT MOVE FROM HIS PRESENT POST BECAUSE THE TAX LIABILITIES WILL BANKRUPT HIM?
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